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Tech missteps can sink succession plans
By Rob Burgess
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For advisors who fail to think through the details of succession, systems that don't integrate well and fragmented data can create unexpected roadblocks.

To mitigate transition risk, advisors should audit their technology well in advance, said Jui Trivedi, mergers and acquisitions advisor at Next Point, a boutique M&A advisory firm.

"For founders and companies thinking about succession, the tech stack should be viewed as a strategic asset rather than a back-office function," she said.

Focusing on clarifying data ownership, readying documentation and maintaining flexibility, rather than forcing premature standardization, is crucial for smooth transitions, said Brian T. Franco, founder and managing partner at M&A advisory firm Meritage Partners.

When data ownership is unclear or fragmented across third-party vendors, transitions tend to be slow and valuation risk increases, he said.

"Ultimately, technology integration works best when it's aligned with a clear succession strategy," he said. "When continuity is planned, tech becomes an enabler of growth rather than a source of friction."

Who has access to the data and where is it stored?
When a firm is exploring a sale to an outside partner, understanding who owns the data and where it is stored plays a major role in a successful technology integration plan.

Advisors should know how frequently they are making, and exactly where they are storing, backups of data including the practice's accounting and legal documents, said Sandra Murray, account manager at back-office technology provider Sycamore Company and a former wealth management chief compliance officer.

The next crucial question to answer: Who has access to these backups?

"If you have made a succession plan with another advisor who is not at the same firm as you are, then that plan needs to consider the access to data, time and effort that will be involved in transferring accounts," she said. "Do you and the other advisor use the same custodians, clearing firms and investment companies? Do you have the same approach to wealth management and financial planning?"

Where technology and compliance meet
The biggest hurdle is rarely the technology itself as a standalone issue, said Benjamin Simerly, founder of Lakehouse Family Wealth in Cleveland. Instead, more often than not most serious transition problems emerge at the intersection of technology and compliance.

"One firm or set of compliance lawyers will say, 'You can only move these 12 fields,' and the technology will say, 'You can only import eight of those fields, and type another 65,'" he said.

Simerly, a part-time tech consultant, has worked on a number of potential successions, including his own attempts to buy books of business from retiring advisors.

He's seen firsthand how merging systems and teams can create unexpected challenges, even when both parties are using Redtail databases.

"When we took on this office-team merger, we ended up doing a significant amount of hand-typing [of] information because my prior broker-dealer disallowed significant amounts of information to move," he said.

Manual data entry may end up being faster
Another integration snag, Simerly said, is the difficulty of deciphering data origins once databases merge, such as which contacts or accounts belonged to which advisor.

"It sounds simple," he said. "The software companies always say the same thing: 'Just add a tag or rep code.' But delimiting those lines in the existing database to be kept can be far trickier than you might think if a firm hasn't updated its contacts or accounts in years."

Simerly used to work in systems implementation with CRM, accounting and warehousing systems. What he learned there transferred well into advisory firm moves.

"The basic rule is, don't be afraid of manual data entry," he said. "More often than not, with the right team, it will actually take far less time than the 'automated' entry and produce a far cleaner result."

In particular, Simerly said advisors should always make sure they have dedicated, tested data entry professionals and a dedicated database master.

"More often than not, that means assistants or secretaries who can focus on typing with phone lines and email turned off for a week and the lead advisor acting as a non-stop data scrubbing hawk," he said. "These two combined will not only get the data over the fastest most of the time, but also allow for significant upgrades in how the data is managed as they adapt and adjust during the move."